

# **Minutes Of The Board Of Trustees City Of Cincinnati Retirement System April 7, 2005**

The Chairman called the meeting to order at 1:30 p.m. with the following members present:

V. Daniel Radford, Chairman  
William Moller, Secretary  
Mayor Charlie Luken (arrived at 1:50pm)  
John Cranley  
Joe Harrison (arrived at 1:40pm)  
Brian Pickering  
Ely Ryder  
Marijane Klug  
Michael Rachford (arrived at 1:50pm)

Member Absent  
Valerie Lemmie

The Chairman called for a motion to approve the minutes of the March 3, 2005 Board Meeting. The motion was made by Mr. Moller, seconded by Ms. Klug and carried by the Board. The minutes were approved as prepared by the Secretary. The Chairman changed the order of business to allow Mr. Cranley to present a motion to the Board, regarding plan changes.

Mr. Cranley introduced the following motion:

I move that the City of Cincinnati Retirement Board refrain from accepting the actuarial reports and from making recommendations to Council containing medical plan changes until we have the 2005 financial report in order to have better and more accurate information before making such dramatic changes.

Mr. Cranley began discussion on his motion by commenting that the retirees who spoke at the public hearing held March 3, 2005 made some pretty convincing arguments that benefits should not be changed for existing retirees. He commented that President Bush's proposal to change the social security system does not include changes for existing retirees, and he thinks that the Board may have been too quick to recommend to City Council the adoption of the plan design changes approved at the February Board meeting.

Mr. Cranley also indicated that he did not think that City Council would approve the recommended plan design changes, and he thinks that getting some changes made will become even more difficult if the issue gets heavily debated by City Council. Mr. Cranley also commented that if the market performs well over the next few years changes might not be needed as the financial condition of the CRS will improve. If the market does not perform well, the arguments for change will be even more compelling.

Mr. Radford commented that the recommended plan design changes were not done quickly. The Board, retirement staff, and the actuarial consultants have spent a considerable amount of time over the past two years to develop this plan. Mr. Moller commented that the financial condition of public pension plans are coming under ever increasing scrutiny, and the under-funded status of the CRS will have to be disclosed for the City's bond sales. This will be perceived as a negative influence on the City's bond rating.

Mr. Ryder commented that the Board should move ahead with the asset/liability study to determine if the asset allocation could be modified in order to get the best possible returns with less volatility. Mr. Moller and Mr. Radford agreed that the asset/liability study, which is now on hold, should be resumed.

After discussion, Mr. Cranley moved that the Board approve his motion; Mr. Ryder seconded the motion. The vote on the motion was five votes in favor and two opposed. Because the motion did not receive the six votes needed to pass the motion, the motion failed.

Mr. Cranley commented that the failed vote was unfair, and it does not seem in this case that the Board rules are consistent with the intentions of the Board. Mr. Ryder also commented that at the public hearing conducted March 3, 2005, Ms. Lemmie stated that she, as well as Mayor Luken who was contacted via telephone, no longer support the Board's recommendation on plan design changes.

Mayor Luken then commented that he is actually still in favor of implementing the plan design changes, but thinks with only lukewarm support from the Board it will not get through City Council. He does not think postponing the issue will be helpful, but at this point it is a lost cause as the plan is going nowhere at either the Board level or City Council level.

Mayor Luken also stated that the Cincinnati Municipal Code stipulates that retirees get the same healthcare benefits as active employees, yet they are actually provided with a healthcare package that is superior to the active employees. Mayor Luken asked the Law Department for a legal opinion as to how retirees could be provided with better healthcare benefits than they are entitled to under the Cincinnati Municipal Code.

After further discussion, and at the suggestion of Mr. Moller, Mr. Cranley amended his original motion and reintroduced it as follows:

I move that the City of Cincinnati Retirement Board refrain from making recommendations to Council containing plan changes until we have the 2005

financial report in order to have better and more accurate information before making such dramatic changes.

Mr. Ryder seconded the motion introduced by Mr. Cranley, and the motion passed by a vote of 7 to 2.

### **BENEFITS COMMITTEE**

Mr. Harrison, Chairman, Benefits Committee, reported that the Committee met on March 31, 2005 in Committee Room B. Mr. Harrison presented the following report to the Board.

1. Application for Ordinary Retirement April 10, 2005: Total – 12

NO.	NAME	DEPARTMENT
27529	Jesse McWhorter	University of Cincinnati
38153	Elaine Turner	MSD
40083	Emil Roberts	MSD
40407	Paul Kuhl	Transportation & Engineering
40452	Marguerite McKinney	University Hospital
40784	Robert Baldwin	University Hospital
40817	Mark Lawson	Hamilton County
41586	Sharon Hoell	University Hospital
42796	Richard Garth	Health
42912	Joseph Luckey, Jr.	Water Works
49233	Ellie Robertson	Health
50335	Axie Watkins	Police

2. Application for Retired Members Deaths: Total – 11

3. Application for Disability Retirement Benefits: Total – 3

NO.	NAME	DEPARTMENT
59259	Anthony Hoskins	Public Services
44879	Johnnie W. Brewer	Water Works
60839	Diane Councill	Health

Mr. Harrison moved that the Board accept the report of the Benefits Committee. The motion was seconded by Mr. Rachford and carried by the Board.

### **INVESTMENT COMMITTEE**

Mr. Moller reported that the Investment Committee met March 4, 2005 in Committee Room B. At that meeting, Jarislowsky Fraser met with the Committee to discuss performance, investment philosophy, etc. Mr. Moller indicated that Jarislowsky is a GARP (Growth at Reasonable Price) manager, and that the firm assets have continued to grow since they became a CRS investment manager one year ago. Their performance has

lagged their EAFE benchmark since their hiring date, but their conservative style typically results in under-performance in high growth markets. Mr. Moller commented that they are expected to out-perform in slower growth and down markets, and their five-year track record is very good relative to their benchmark.

Mr. Moller also reported that the Investment Consultant recommended a change to the under-performance guidelines for fixed income managers in the Manager Evaluation Policy. The consultant believes the current guidelines are too lenient, and he is recommending reducing the under-performance criteria for watch list status from 75 basis points to 50 basis points for three-years and from 50 basis points to 25 basis points for five-years.

Mr. Ryder commented that we should expect our managers to out-perform their benchmarks, and he would like to see a more aggressive change to the Manager Evaluation Policy. Mr. Moller commented that if the guidelines were too tight, it would be too restrictive and all managers would end up on the watch list at one time or another.

After discussion, Mr. Moller moved that the Board approve the changes to the Manager Evaluation Policy as recommended by the Investment Consultant. The motion was seconded by Ms. Klug and carried by the Board.

Mr. Moller also reported that fixed income manager Smith-Graham would be placed on the watch list for qualitative reasons due to the recent departure of their Chief Investment Officer, Dr. Ronald Johnson. Mr. Ryder commented that Smith-Graham should also be on the watch list due to under-performance, particularly in light of the new under-performance guidelines just adopted by the Board.

### **SECRETARY'S REPORT**

Mr. Moller reported that the asset level of the CRS as of the end of January was 2.40 billion. The year-to-date increase is 0.2%, and the increase over the last one-year period is 2.45%. Mr. Moller also commented that the asset allocations are within their target bands, and that cash has recently been withdrawn from the international equity managers each month in order to meet the cash needs of the CRS.

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 50
2. Resolution for Return of Contributions & Death Benefits– Total: 43  
Amount: \$197,784.90
3. Resolution for Loans to Members – Total: 49 Amount: \$554,878.82
4. Report on Deaths of Pensioned Members – Total: 19

The Secretary submitted the following vouchers for payment:

<b>PAYEE</b>	<b>AMOUNT</b>
Business Information Solutions Inc. – Storage of CRS files	\$75.03
All Star Personnel Inc. – Temporary Personnel Services	\$3,692.94
Michael Rachford – Reimbursement for airfare to conference May 5-12, 2005	\$298.40

Millennium Business Systems – Service on Fax Machine	\$331.00
Mercer Human Resource Consulting – Professional Services Rendered	\$44,689.00
All Star Personnel Inc. – Temporary Personnel Services	\$3,132.48
City of Cincinnati Printing Services – Billing for Stores, Printing & Postage	\$9,472.51
ABS Business Products Inc. – Monthly Rental Base Rate for Copier	\$180.60
Pension & Investments Subscriber Services – Renewal for Dan Radford	\$229.00
Mercer Human Resource Consulting – Professional Services Rendered	\$22,583.00
Paul T. Hogya, M.D. – Billing for Medical Disability Examinations	\$5,025.00
Parman Group Inc. – Billing for Medical Disability Evaluations	\$3,655.25
Sarcom – Billing for Laserjet Printer	\$2,131.00
Mae Consulting – Professional Services Rendered	\$1,120.00
All Star Personnel Inc. – Temporary Personnel Services	\$1,202.34
NAPPA – Annual Membership Dues for Board of Trustees	\$365.00
Business Information Solutions Inc.- Storage of CRS files	\$75.03
Deutsche Asset Management Inc. – Custodial Services	\$89,749.68
All Star Personnel Inc. – Temporary Personnel Services	\$1,486.40
City of Cincinnati Accounts & Audits – 1 <sup>st</sup> Qtr. Health Insurance	\$10,844.91
City of Cincinnati Printing Services – Charges for March 2005	\$6,886.04
Paul T. Hogya, M.D. – Billing for Medical Disability Examinations	\$1,115.00
Parman Group Inc. – Billing for Medical Disability Evaluations	\$733.75
All Star Personnel Inc. – Temporary Personnel Services	\$1,555.02
State Teachers Retirement System – Reciprocity Transfer Payment for Cheryl Hassel-Buchanan	\$5,587.17
Ohio Public Employees Retirement System – Reciprocity Transfer Payment for Sharon Luckman	\$21,805.93

The Secretary reported that at the close of business March 31, 2005, there was in the Treasury to the credit of the Retirement System the amount of \$8,337,919.61.

#### **Asset Valuation:**

- December 31, 2004: \$2.40 billion
- February 28, 2005: \$2.40 billion
- YTD Increase (Decrease): (0.07)%

#### **Current Asset Allocation: (Policy Objective)**

- Domestic Equity: 51.4% (50%)
- International: 15.1% (13.5%)
- Fixed Income: 32.6% (33.5%)
- Alternative Assets/Treasury Cash: 0.9% (3%)

## **PENDING BUSINESS**

### **2003 Actuarial Valuation Report**

Mr. Gary Dickson, the Retirement System Actuary, was on hand to discuss the actuarial valuation report for the year ending December 31, 2003. Mr. Dickson originally presented this report to the Board at the May 2004 meeting, but the Board agreed to postpone the formal approval of the report due to the potential changes to the CRS plan design. Mr. Dickson informed the Board that the 2003 report would have to be approved before they could complete the 2004 actuarial report.

Mr. Dickson stated that the 2003 report does not include any changes to the CRS benefit structure and continues to use an investment assumption return of 8.75%. The report does change the asset valuation method in that it uses the actual market value of assets at 12/31/2003 instead of the smoothed value of assets that recognizes gains and losses over a five-year period. This resulted in the immediate recognition of the losses which occurred in the years 2000 through 2002 as well as the gains achieved in 2003.

Mr. Dickson reported that the funding level of the plan as of 12/31/04 was approximately 94%, and the total recommended contribution rate for 2005 would be 30.3%. Assuming the employee contribution remains at the current rate of 7.0%, the recommended employer contribution rate would be about 23%. (The actual employer contribution rate for 2005 is 11.0%)

Mr. Dickson advised that he would not be comfortable with the current actuarial assumptions if the Board did not reset the valuation of assets to the 12/31/2003 market value and continued to use the 8.75% investment return. Mr. Dickson stated that if the actuary does not agree with the assumptions used to value the plan, they would not certify the results.

Mr. Dickson stated that the current return assumption of 8.75% may be at the upper range of reasonable return assumptions. Mr. Moller added that in a survey of 104 public pension plans conducted by Wilshire Associates, only three plans had return assumptions greater than 8.75%. Mr. Moller commented that most investment advisors are expecting long-term returns of stocks (65% of the CRS portfolio) to be in the mid-to-high single digits, and bonds (35% of the CRS portfolio) to return 4.0% to 5.0%. Given these forecasts, it will be highly unlikely the 8.75% return assumption will be achieved without significantly increasing the risk profile of the CRS investment portfolio. Mr. Radford added that he has discussed this issue with various investment professionals, and most of them are expecting long-term investment returns of about 7.5%. He also commented that the median return in the Wilshire survey mentioned above was only 7.9%.

After discussion, Mr. Moller moved that the Board approve the 2003 actuarial valuation report as prepared by the actuary. The motion was seconded by Ms. Klug and passed unanimously by the Board.

Mayor Luken then commented that the Board should clearly explain to City Council that the actuary is recommending a contribution rate of approximately 30%, of which the employees pay 7.0% and 23% is paid by the employer. This is more than double the 11% contribution the City is currently contributing to the system.

Mayor Luken also commented that the communications received from many retirees suggest that any reduction in benefits and/or increased contributions to the system should affect only active or future employees. Mayor Luken encouraged the active employer representatives on the Board to communicate the retiree's position to current employees and inform them that the costs associated with keeping the system financially healthy is likely to fall on the shoulders of the active employees. Mr. Ryder responded that he has always favored a balanced approach to plan design changes that would have an impact on the employer, the employees, and the retirees. Mayor Luken asked Mr. Ryder for examples of this position, which Mr. Ryder agreed to provide to Mayor Luken.

### **ADJOURNMENT**

Upon request of the Chairman for a motion to adjourn, the motion was made by Ms. Klug, and seconded by Mr. Moller and carried by the Board. The meeting was adjourned at 2:40 p.m.